

Gambling as a Source of Education Revenue

Control and Taxation of Video Gambling in Other States

A Preliminary Report

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1998

Video gambling appears to be in South Carolina to stay, and if it going to be retained, it is important to address the control of this industry for consumer protection, limiting access by minors, and generating revenue for public purposes, as is done in the limited number of other states that permit video gambling outside casinos. This report summarizes available information on other states in terms of where the control authority is vested, how many machines there are and how much revenue they generate, how states raise revenue from these machines, and what payout rates are required.

The Controlling Authority is most commonly a gaming control board or gaming commission, sometimes the lottery commission, sometimes within the Office of the Attorney General or Treasurer. A list of these agencies is attached. Often these entities also work with Native American gambling operations and oversee charitable bingo. They are responsible for monitoring and inspecting, licensing, and often for controlling access by minors and determining what kinds of machines are authorized (mainly to ensure that the machines in place can be centrally monitored.)

Numbers of machines. South Carolina continues to hold the record for the number of video gambling machines outside casinos. Louisiana also has a large number of machines, reported recently as more than 15,000, but no number was readily available. Louisiana recently had a parish-by-parish vote on whether to keep the machines or get rid of them, and it passed in half the parishes and failed in the others—the only state thus far to emulate South Carolina's unsuccessful effort to make it a county-by-county issue. West Virginia has 3,000 legal machines at racetracks¹ and up to 30,000 "gray" machines in bars, restaurants, and other places (illegal machines that continue to function due to lack of enforcement). Delaware has 2,802 machines only at racetracks; Rhode Island also has a limited number of machines only at racetracks. Oregon has state-owned machines, in excess of 9,000, operated by the lottery commission. North Carolina has a number of "gray" machines that are creating enforcement problems for state authorities; the only legal machines are in the Native American casino in Cherokee. In other states, machines are located in casinos: 11 states have commercial casinos, and 19 have Native American casinos.

Payout rates. Where machines inside or outside casinos are monitored and regulated by the state, the state determines the required payout ratio, i.e., the percentage of gross wagering that is paid out in prizes. Required payout ratios were in the 91% to 94% range (West Virginia, 91%, Indiana, 93%, Mississippi, 94%). High school algebra reminds us that is still easy to lose a stake with repeated play where the player retains 91% of 91% of 91%...If machines are not monitored, it is difficult for users to determine if the odds are reasonable or attractive. "Gray" (illegal) machines in West Virginia reportedly have a payout ratio of only about 70%.

Machine revenue. A sampling of both casino and free standing video gambling states:

Mississippi's 29 casinos had \$33.8 billion in gross wagering in 1997, of which \$32 billion was paid in prizes and \$198 million went to the state in gross gaming revenues. In North Dakota,

973 sites (mostly Native American) generated \$577 million in gross proceeds in 1993-95; \$47 million went to charity, \$22 million to excise taxes. Oregon, with freestanding machines rather than

casinos, reported gross revenues (money wagered less payout before taxes) of \$124 per machine per day. The average machines at a racetrack in West Virginia had gross revenues of \$131 a day, while the “gray” machines were estimated to retain only about \$250 a week. These figures translate to annual revenues of \$45,000-\$47,000 for the legal machines and about \$10,000 for the gray machines. However, estimates for the gray machines are not verifiable since they are not monitored, and their payout ratio is much less favorable to the player (about 70%), so they do not attract as many players. In Delaware, gross revenues average about \$28 million a month from about 2,800 machines at racetracks.

State taxes and fees. States typically raise revenue from these machines with a tax on gross revenues as well as application fees and licensing fees. In general, licensing fees are lower than in South Carolina because the percentage tax generates quite a bit of revenue. In Mississippi, where video gambling is in casinos and on riverboats, the tax came to about 11% of gross gaming revenues (Mississippi uses a graduated tax based on the machine’s earnings). Mississippi also charges a \$5,000 application fee and an \$5,000 license fee. New Jersey (Atlantic City) collects an 8% tax on gross revenues. North Dakota collects only 3.8%, but most of it is from charitable gambling. Indiana has both an admissions tax (to casinos and riverboats) and a wagering tax. In Washington, where there is little video gambling but legal card rooms and pulltabs, there is a tax on card rooms of 15-20%, and on pulltabs of 5% to 10%. In Colorado, which has a limited number of casinos in old mining towns like Central City (55 casinos with 13,458 machines), there is also a graduated tax that starts at 2% of the first \$2 million per location (not machine) and goes up to 20% at gross revenues of \$10 million and over. There is also a per-machine fee of \$75 per machine or table as well as local fees of \$750-\$1200 per year. The gaming commission sets the tax rate each year. Colorado also taxes charity gaming nights at a 3% rate. In both West Virginia and Oregon, machines are owned by the state, with West Virginia keeping 34% of gross revenues and Oregon 65% (the rest goes to retailers). West Virginia is considering a proposal to legalize its gray machines with an initial \$8500 licensing fee, a renewal fee of \$1500, and a 20% tax on gross revenues.

State revenue. Since states often have multiple sources of gambling revenue, it is difficult to separate out revenue from video gambling machines. Outside of Nevada, where gambling revenues account for 45% of the state budget, the leading earners from video gambling are two casino states, New Jersey at \$309 million in FY 1997 and Mississippi at \$250 million in FY1998.

Indiana collected \$193 million in wagering tax and \$74 million in admissions tax in the last fiscal year with 11,622 machines, Colorado \$57 million from its 13,458 machines in small-town casinos, and West Virginia \$130 million from 3,000 machines.

Uses of revenue. Some states designate gambling revenue for the general fund, others for special purposes. In Michigan, where most of the revenue comes from casinos in Detroit, revenues are divided between K-12 education and city of Detroit capital improvements, youth programs, and tax relief. In Indiana, the revenues are for state capital expenditures and cities; in New Jersey, the funds are earmarked for senior citizens and the disabled; licensing fees are used to cover the cost of oversight, licensing, and monitoring. Colorado gives about half the revenue to the General fund, and the rest to towns, tourism, and the state historical society. West Virginia uses its gambling revenue for school buildings, tourism promotion, development, education, aging, and the arts.

If additional information is needed, the Strom Thurmond Institute can expand the search and provide more details. Please let us know what kinds of additional information would be helpful.

¹ There are two reasons for machines at racetracks. One is to prop up the greyhound and horse-racing industry, which has been losing popularity; the other is to limit access to minors.